

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-10 ISO-00 AGR-10 SP-02 AID-05

EB-07 NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01

CEA-01 CIAE-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04

OPIC-06 LAB-04 SIL-01 FEAE-00 /132 W

----- 021369

R 171756Z OCT 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5696

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 16033

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING OCT. 17

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1. THE CHANCELLOR OF THE EXCHEQUER AND THE GOVERNOR OF

THE BANK OF ENGLAND REVIEWED THE STATE OF THE BRITISH ECONOMY IN ADDRESSES DELIVERED THIS WEEK. THE CHANCELLOR NOTED PROGRESS IN NARROWING THE CURRENT ACCOUNT DEFICIT AND THE DEVELOPMENT OF A WIDELY SUPPORTED ANTI-INFLATION PROGRAM WHICH SHOWS SIGNS OF REDUCING THE RATE OF PRICE INCREASES. THE CHANCELLOR PROMISED NO IMMEDIATE CUTS IN PUBLIC EXPENDITURE THOUGH HE DID SAY THAT THE GOVERNMENT DEFICIT WOULD HAVE TO BE REDUCED AS THE ECONOMY RECOVERED. HE STRESSED THE NEED FOR MORE INVESTMENT, HIGHER PRODUCTIVITY AND A NEW RELATIONSHIP BETWEEN GOVERNMENT, THE FINANCIAL COMMUNITY, BUSINESS AND LABOR. THE GOVERNOR OF THE BANK OF ENGLAND, GORDON RICHARDSON, CALLED FOR A STRONGER EFFORT TO REDUCE INFLATION OVER THE LONG TERM, WITH THE RATE OF WAGE INCREASES IN LINE WITH THE RATE OF PRODUCTIVITY INCREASES. HE STRESSED THE FACT THAT INVESTMENT DEPENDED ON PROFITABILITY WHICH HAD FALLEN SHARPLY IN RECENT YEARS. (SEPTTEL FOLLOWS)

2. RETAIL PRICES FOR SEPTEMBER

THE SEPTEMBER RETAIL PRICE INDEX ROSE BY 0.9 PERCENT TO 140.5 (1974 EQUALS 100) FROM ITS AUGUST LEVEL OF 139.3. THE RETAIL PRICE INDEX IS 26.6 PERCENT HIGHER THAN IT WAS IN SEPTEMBER 1974. HOWEVER, DURING THE THIRD QUARTER OF 1975, THE INDEX ROSE JUST 2.5 PERCENT OR AT AN ANNUAL RATE OF 10 PERCENT.

3. WHOLESALE PRICE RISE SLOWS IN SEPTEMBER

THE WHOLESALE PRICE INDEX FOR MANUFACTURED GOODS (OUTPUTS) ROSE BY 0.8 PERCENT IN SEPTEMBER TO A LEVEL OF 195.0 (1970 EQUALS 100) FROM ITS AUGUST LEVEL OF 193.5. THIS INCREASE WAS THE SMALLEST SINCE THE SECOND QUARTER OF 1973. THE INDEX OF RAW MATERIALS PRICES (INPUTS) STOOD AT 242.7 IN SEPTEMBER, UP 0.7 PERCENT FROM ITS AUGUST LEVEL OF 241.1. DURING THE THIRD QUARTER THE OUTPUT PRICE INDEX ROSE AT AN ANNUAL RATE OF 15.2 PERCENT. WHILE THE INPUT INDEX ROSE BY 23.8 PERCENT. THE SEPTEMBER FIGURES DO NOT REFLECT THE IMPACT OF THE 10 PERCENT INCREASE ON THE PRICE OF OIL SET AT THE OPEC MEETING IN VIENNA.

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4. INDUSTRIAL PRODUCTION FALLS BELOW 1970 LEVEL.

LED BY SHARP DECLINES IN THE METAL MANUFACTURING AND ENGINEERING SECTORS, THE INDEX OF INDUSTRIAL PRODUCTION FELL BELOW ITS 1970 BASE IN AUGUST. THE BROAD INDEX COVERING ALL INDUSTRIES STOOD AT 99.1 WHILE THE SLIGHTLY NARROWER INDEX OF MANUFACTURING PRODUCTION WAS 99.4. THESE READ-

INGS REPRESENT A DROP OF ABOUT ONE PERCENT FROM THE JULY LEVELS OF 100.0 AND 100.3 RESPECTIVELY. THE RATE OF DECLINE IN INDUSTRIAL PRODUCTION HAS SLOWED SINCE THE BEGINNING OF THE YEAR, DROPPING FROM OVER 4 PERCENT BETWEEN THE FIRST AND SECOND QUARTERS TO ABOUT 2 PERCENT BETWEEN THE MARCH-MAY AND JUNE-AUGUST PERIODS. THE UNCERTAINTY IN THE FIGURES IS DUE TO THE FACT THAT THE INDEX IS CONSTRUCTED ON A DELIVERY RATHER THAN ON AN OUTPUT BASIS. AS A RESULT THE INDEX CONTAINS AN UPWARD BIAS DURING PERIODS OF SHARPLY FALLING OUTPUT.

5. CURRENT ACCOUNT

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XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-04 CEA-01 FEAE-00 /132 W

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R 171816Z OCT 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5697

INFO AMEMBASSY BERN

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AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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THE U.K. TRADE DEFICIT FELL BY 167 MILLION POUNDS TO 211 MILLION POUNDS DURING SEPTEMBER, REFLECTING A 5.25 PERCENT RISE IN THE VOLUME OF EXPORTS AND A 4.5 PERCENT DROP IN THE VOLUME OF IMPORTS. THE DEFICIT ON TRADE IN PETROLEUM WAS REDUCED BY 41 MILLION POUNDS TO 241 MILLION POUNDS
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WHILE TRADE IN NON-OIL RELATED GOODS SHOWED A SURPLUS OF 30 MILLION POUNDS. THE VISIBLE TRADE DEFICIT OF 211 MILLION POUNDS COMBINED WITH AN INVISIBLE ACCOUNT SURPLUS OF 110 MILLION POUNDS RESULTED IN A DEFICIT ON CURRENT ACCOUNT OF 101 MILLION POUNDS. THE TOTAL CURRENT ACCOUNT DEFICIT DURING THE FIRST THREE QUARTERS OF 1975 WAS 1,158 MILLION POUNDS COMPARED TO 2,597 MILLION POUNDS DURING THE FIRST THREE QUARTERS OF 1974. (SEE LONDON 15891 FOR DETAILS.)

(DATES)	10/9	10/16	CHANGE
EXCHANGE RATE	\$2.0480	\$2.0555	UP \$0.0075
EFFECTIVE DEPRECIATION			
(PERCENT)	29.3	29.6	WIDENED 0.3
GOLD	\$140.25	\$143.50	\$3.25

6. FORWARD DISCOUNT ON STERLING:

(DATES)	10/9	10/16	CHANGE
1 MONTH	0.85	0.95	UP 0.10
3 MONTHS	2.35	2.45	UP 0.10
6 MONTHS	4.15	4.35	UP 0.20

(ALL FIGURES IN CENTS)

7. EURODOLLAR INTEREST RATES:

(DATES)	10/9	10/16	CHANGE
1 MONTH	6-7/8	6	DOWN 7/8
3 MONTHS	7-3/4	7	DOWN 3/4
6 MONTHS	8-1/4	7-3/4	DOWN 1/2

8. LOCAL AUTHORITY DEPOSIT RATES:

(DATES)	10/9	10/16	CHANGE
1 MONTH	11-5/16	11-3/8	UP 1/16
3 MONTHS	11-11/16	11-5/8	DOWN 1/16
6 MONTHS	11-13/16	11-11/16	DOWN 1/8

9. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 12 PERCENT.

RICHARDSON

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